

TITLE 25. DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

NOTICE OF PROPOSED RULEMAKING FOR THE CALHOME PROGRAM

Notice is hereby given that the Department of Housing and Community Development (Department) proposes to adopt regulations for the CalHome Program. The purpose of the CalHome Program's is to provide funds to local public agencies (localities) or nonprofit corporations as either grants for programs that assist individual households or loans that assist multi-unit homeownership development, mutual housing or limited equity cooperative projects.

WRITTEN COMMENT PERIOD

Any interested person, or his or her authorized representative, may submit written comments relevant to the proposed regulatory action by the Department. The written comment period begins April 25, 2003 and closes at 5:00 p.m. on June 8, 2003. The Department will consider comments received during this timeframe. Please address your comments to Peter Solomon, Community Affairs Division, CalHome, P.O. Box 952054, Sacramento, California 94252-2054. Comments can be sent via fax transmittal to (916) 445-3086, attention: Peter Solomon, CalHome.

PUBLIC HEARINGS

Public hearings will be held in Los Angeles California on Thursday, May 22, 2003 from 10:00 a.m. to 12:00 p.m. at the Ronald Reagan State Building, Eason Room, located at 300 South Spring Street; and in Sacramento on Monday, June 9, 2003 from 10:00 a.m. to 12:00 p.m. at the HCD headquarters, Room 183, located at 1800 Third Street. Any person may present statements or arguments orally or in writing relevant to the proposed action described in the Informative Digest below. The Department requests, but does not require, that persons who make oral comments at the hearing also submit a written copy of their testimonies at the hearings.

AUTHORITY AND REFERENCE

The Department is conducting this rulemaking activity under the authority provided by Health and Safety Code (H&S) Section 50650.7 and to implement, interpret, and make specific Section 50650 of the Health and & Safety Code which was enacted as part of CalHomes Program statutes in SB 1656, Chapter 84, Statutes of 2000.

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

These regulations implement the CalHome Program created by Chapter 84, Statutes of 2002 (SB 1656, Health and Safety Code Section 50650 et seq.). The purpose of the CalHome Program is to support existing homeownership programs for lower and very low income households operated by private nonprofit and local government agencies (**referred to hereafter as "Local Recipients"**). Distribution of CalHome funds is a two-step process. The Department will make awards of CalHome funds, in the form of a

grant or a loan, to a Local Recipient through the use of a Notice of Funding Availability (“NOFA”). The Local Recipient in turn will use the funds to make loans to homeowners or home purchasers. The loans will be repayable to the Local Recipient.

The CalHome Program provides assistance to Local Recipients in the form of grants to fund local programs undertaking:

- Mortgage assistance loans to first-time homebuyers;
- Loans to owner-occupants for rehabilitation;
- Technical assistance to self-help housing projects; and
- Technical assistance for shared housing programs.

The Program also provides construction period loans for development of new homeownership projects for the costs of: land purchase, predevelopment, and site development. Upon completion of a development project, loans may be converted into grants for purchase assistance to individual homebuyers.

Assistance provided to individual homeowners is made in the form of low interest deferred loans repayable upon sale or transfer of the home. These loans will be repayable to the local recipient originating the loan. The proceeds of loan repayments must be retained in a local reuse account and used for other CalHome eligible expenditures. Each homebuyer receiving CalHome assistance will be required to complete a homebuyer education course approved by the Department and provided by the Local Recipient.

Allowable uses of CalHome funds are for first-time homebuyer down payment assistance, homeowner rehabilitation, manufactured housing rehabilitation and replacement, homebuyer counseling, home acquisition with rehabilitation, self-help mortgage assistance, or for technical assistance for self-help and shared housing.

The CalHome Program previously operated under guidelines dated November 2, 2000 under which three Notices of Funding Availability were issued. These proposed regulations are based in large part on these earlier guidelines modified based on the Department’s experience and comments from its customers.

The most notable change from the guidelines is an attempt to permit more local flexibility in the administration of CalHome funds. Rather than being overly prescriptive, these regulations attempt to permit the use of existing local programs so long as they include certain generally accepted industry requirements (e.g., reasonable underwriting standards).

The regulations are divided into the following 11 Articles:

1. General (purpose & scope).
2. General Program Requirements (eligible applicants, eligible activities, eligible and ineligible uses of funds, eligible households, local program/project administration, homebuyer education requirements, loan servicing requirements, and reuse account requirements).

3. Homeowner/Homebuyer Loan Requirements.
4. Mortgage Assistance Programs.
5. Owner-Occupied Rehabilitation Programs.
6. Self-Help Technical Assistance Projects.
7. Shared Housing Programs.
8. Development Loan Requirements.
9. Application Procedures.
10. Program Operations (legal documents, disbursements, reporting requirements, performance goals, and defaults).
11. Permanent-only Financing for Mutual Housing & Limited Equity Cooperative Projects.

Article 11 is a place holder. At this time, no regulations are being adopted for mutual housing and limited equity cooperative projects.

These regulations propose to distribute CalHome funds utilizing periodic Notices of Funding Availability (“NOFAs”) announcing that the Department is accepting applications for funds. Applicants will be required to file an application containing the information specified in the regulations. Applicants will then be screened for qualifying organizational stability and capacity using the following criteria:

- Mortgage assistance program - the applicant must have successfully administered a homebuyer program for at least 2 years within the last 4 years.
- Owner-occupied rehabilitation program - the applicant must have successfully administered an owner-occupied rehabilitation program for at least 2 years within the last 4 years.
- Self-help technical assistance project – the applicant must have successfully completed at least 2 self-help, new construction projects within the last 4 years.
- Shared housing - the applicant must have successfully administered a shared housing program for at least 2 years within the last 4 years.
- Development Loan - the applicant must have successfully completed at least 2 similar projects within the last 4 years and have staff committed to the project that possess the knowledge, skills and ability to perform tasks required for a homeownership development project.

Eligible applications will be rated and ranked for funding utilizing the following criteria:

- Capability of operating the local program or completing the development project based on past same or similar experience, including experience in loan servicing (up to 400 points).

- Community need based on housing purchase costs and poverty level (up to 150 points).
- Feasibility - for programs, the extent to which the program is responding to a community need; and for projects, readiness to proceed and likelihood that the project can provide affordable housing for lower income households (up to 250 points).
- Contribution to community revitalization (up to 100 points).
- Use of voluntary or self-help labor, or a youth construction skills training program (up to 100 points).

The applications with the highest scores will be awarded funds until funds under the NOFA are exhausted with the exception that an application must receive a minimum of 550 points to be eligible for funding.

Funds awarded for local programs must be expended within 36 months. For homeownership development projects, onsite construction must commence within 22 months of the award and construction completed and mortgage assistance loans closed within 36 months. For self-help technical assistance projects, onsite construction must begin within 12 months of the award and units completed within 36 months. If these deadlines are not met, the Department may cancel the award and disencumber the funds.

IMPACT OF PROPOSED REGULATIONS

The CalHome Program provides funds to local public agencies (localities) or nonprofit corporations as either grants for programs that assist individual households or loans that assist multi-unit homeownership development, mutual housing or limited equity cooperative projects. The Program regulations are designed to provide financing for first-time homebuyer down payment assistance, homeowner rehabilitation, manufactured housing rehabilitation and replacement, homebuyer counseling, home acquisition with rehabilitation, self-help mortgage assistance, or for technical assistance for self-help and shared housing.

EFFECT ON SMALL BUSINESS

The proposed regulations do not affect small businesses, because the regulations do not mandate or require small businesses to take any prescribed action, and it has no financial impact on small businesses.

LOCAL MANDATE

The proposed regulatory activity will not impose a mandate on local agencies or school districts. Participation in the program is voluntary.

FISCAL IMPACT

This regulatory activity does not impose any cost on any local agency or school district that is required to be reimbursed under Part 7 (commencing with sec. 17500) of Division 4 of the Government Code; neither does the regulatory activity result in any other nondiscretionary cost or savings imposed on local agencies or in any cost or savings to any state agency (other than the Department). Participation is voluntary, not mandatory. The program is funded from the State's General Fund and has no impact on federal funding to the state.

EFFECT ON HOUSING COSTS

The program is intended to support existing homeownership programs aimed at low- and very low-income households, operated by private nonprofit corporations and localities, thereby to increase homeownership, encourage neighborhood revitalization and sustainable development, and maximize use of existing homes.

INITIAL DETERMINATION OF STATEWIDE ADVERSE ECONOMIC IMPACT DIRECTLY EFFECTING BUSINESSES

The Department has made an initial determination that the proposed action will not have a significant statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states.

ASSESSMENT STATEMENT

The Department has determined that the regulations will not significantly affect the creation or elimination of jobs in California; the creation of new businesses or the elimination of existing businesses within California; or the expansion of businesses currently operating in California. In any case, participation in the program would be voluntary.

STATEMENT OF POTENTIAL COSTS IMPACT ON PRIVATE PERSONS AND BUSINESS DIRECTLY AFFECTED

The Department is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action. While private businesses (nonprofits) and individuals are eligible to receive program funds under the program, participation is voluntary.

CONSIDERATION OF ALTERNATIVES

The Department of Housing and Community Development must determine that no reasonable alternative considered by the Department or that has otherwise been identified and brought to the attention of the Department would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action.

AVAILABILITY OF TEXT OF PROPOSED REGULATIONS AND STATEMENT OF REASONS

The text of the proposed regulations is available upon request, along with the Initial Statement of Reasons, prepared by the Department, which provides the reasons for the proposals. All information the Department is considering as a basis for this proposal is maintained in a rulemaking file, which is available for inspection at the address noted below. Copies can be obtained by contacting Peter Solomon at the address and telephone number noted below.

AVAILABILITY OF CHANGED OR MODIFIED TEXT

Following the written comment period, the Department may adopt the proposed regulations substantially as described in this notice. If the Department makes modifications, which are sufficiently related to the originally proposed text, it will make the modified text--with changes clearly indicated--available to the public for at least 15 days before the Department adopts the regulations as revised. Please send requests for copies of any modified regulations to the attention of Peter Solomon at the address indicated below. The Department will accept written comments on the modified regulations for 15 days after the date on which they are made available.

AVAILABILITY OF RULEMAKING DOCUMENTS

All of the information upon which the proposed regulations are based is contained in the rulemaking file, which is available for public review, by contacting the person named below.

AVAILABILITY OF FINAL STATEMENT OF REASONS

At the conclusion of this rulemaking, a Final Statement of Reasons will be prepared as required by Government Code section 11346.9. This document will be available from the contact person named below.

CONTACT INFORMATION PERSON

HCD: Peter Solomon
(916) 445-3086

HCD Back-Up: Lenora Frazier
(916) 323-7288

HCD Address: State Department of Housing and Community Development
1800 Third Street, Room 390
Sacramento, California 95814

HCD Website: Copies of the Notice of Proposed Action, the Initial Statement of Reasons, and the text of the regulations may be accessed through our website at www.hcd.ca.gov

HCD Facsimile No: (916) 323-6016

The Department invites interested persons to present statements or arguments with respect to alternatives to the proposed regulations during the written comment period. Direct inquiries concerning the substance of the proposed rulemaking action and any requests for the documents noted above should be made to:

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